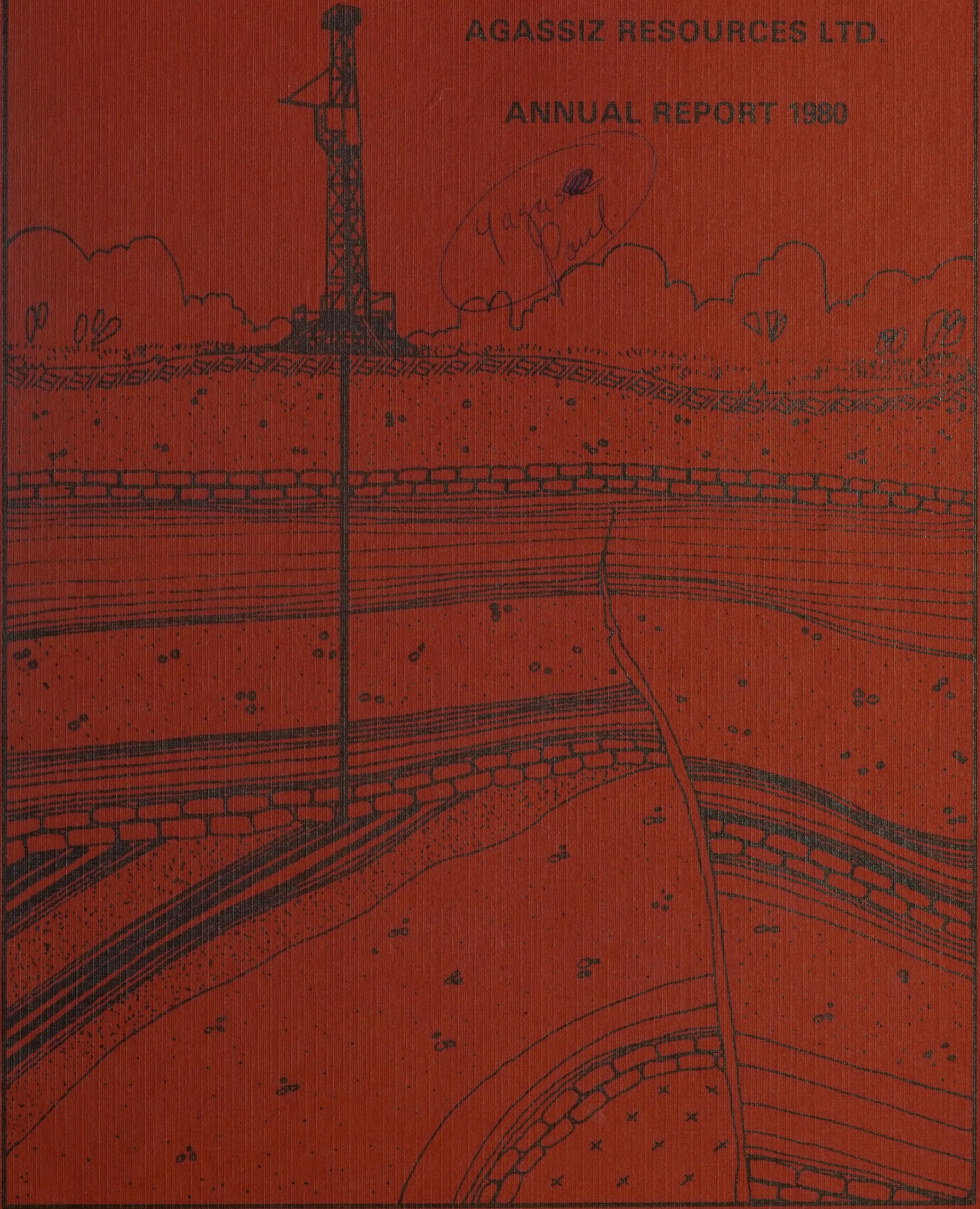
AGASSIZ RESOURCES LTD.

ANNUAL REPORT 1980



AGASSIZ RESOURCES LTD., formerly ROYAL AGASSIZ MINES LTD. is engaged in the exploration and development of oil and gas properties in the United States and Canada. Through its 59-per-cent-owned subsidiary, Comiesa Corporation, AGASSSIZ has interests in gold properties and prospects in various regions of Canada.

The annual meeting of Shareholders of Agassiz Resources Ltd. will be held at 12 NOON Central time on FRIDAY, DECEMBER 12, 1980. All shareholders are invited to attend.

The HEAD OFFICE of AGASSIZ RESOURCES LTD. is located at:
401 Bay Street
Suite 2314
TORONTO M5H 2Y4

REGISTERED OFFICE	302 Whitegate Crescent Winnipeg, Manitoba	
OFFICERS AND DIRECTORS	H.J. Mockler President Corporate executive	Toronto
	Stephen Bartlett Vice-President Chartered accountant	Toronto
	I.J. Berscheid, Vice-President Mining consultant	Winnipeg
	N.E. Goodman Investment counsel	Toronto
	D.W. Hilland Barrister and solicitor	Calgary
COUNSEL	McLaws & Co. Calgary	
REGISTRAR AND TRANSFER AGENT	Guaranty Trust Company Toronto, Winnipeg, Calgary, Vancouver	
BANKERS	Royal Bank of Canada Toronto, Calgary	
STOCK EXCHANGE LISTINGS	Vancouver Stock Exchange Winnipeg Stock Exchange Symbol: AGZ	
AUDITORS	Leebosh, April, Curtis & Arbess Montreal	

Agassiz Resources Ltd.

TO THE SHAREHOLDERS

In the period of less than three years since Agassiz Resources Ltd. made its entry into the oil and gas industry, your Company has reached the important threshold of generating a positive cash flow.

We believe that the progress achieved so far, and the promise held by properties in which your Company has an interest, has set the stage for a major phase of growth.

Recent government actions in Canada have confirmed the wisdom of the decision made a year ago to shift the emphasis of our oil and gas exploration and development activities to the United States.

In the year ended June 30, 1980, Agassiz Resources Ltd. had net profit of $795,257, equivalent to 18 cents per share. Much of this profit arose from a gain on the sale of your Company's East Marten Hills property and from gains on the sale of investments. Notwithstanding, the result of these profits has been to place your Company in a financial position such that it can more effectively take advantage of the many latent opportunities which lie in the southwestern United States.

Henceforth, it is the intention of your Company to concentrate 80 per cent of its resources and activities in the United States, where our exploration efforts already have yielded encouraging results.

Agassiz Resources Ltd. intends to make an application to have its shares listed on the Toronto Stock Exchange. Either prior to or coincident with the listing application the company will seek additional equity financing, the proceeds of which will enable Agassiz to obtain a greater exposure in the more promising areas of the southwestern United States.

COMIESA CORPORATION

The predecessor company of Agassiz Resources Ltd. was long identified with the search for gold, in the expectation, since realized, that the price of gold would reflect rising rates of inflation and the desire on the part of the investors to seek refuge from the erosion of the value of paper currencies. From the end of 1974, when residents of the United States were allowed to own gold for the first time in 40 years, the price of this international medium of exchange rose from $187.50 per ounce to as high as $875 per ounce in January of this year.

While management of Agassiz decided two years ago to direct most of its attention and resources to the development of petroleum lands, your Company also wanted to maintain and exploit its promising mineral holdings.

A series of steps have been taken in the past two years to preserve and enhance the value of gold properties formerly owned directly by your Company. These steps were taken in keeping with a policy of separating Agassiz's petroleum and mineral activities.

One decision was to transfer gold properties owned by Agassiz to its subsidiary, Comiesa Corporation. In order to endow Comiesa with sufficient funds to manage these properties, 500,000 shares of Comiesa were sold to the public at 60 cents each. For its own account, Agassiz subscribed for an additional 700,000 Comiesa shares at 54 cents each, the result of which is that your Company's ownership interest in Comiesa is now 59 per cent. The aforementioned shares were sold in October, 1980.

In the meantime, the large amounts of capital required to develop the Lynn Lake mine in Manitoba prompted Comiesa to option this property to Sherritt Gordon Mines. The terms of the option agreement call for Sherritt Gordon to carry out an exploration program designed to confirm the ore reserves and to enable a production decision to be made. During the term of this program, Sherritt Gordon is obliged to pay Comiesa $10,000 per month and a further $100,000 at the time a production decision is made, expected to be during the coming year.

If and when the property is brought into commercial production, Comiesa will receive a royalty of 7 per cent of the gross value of the ore mined.

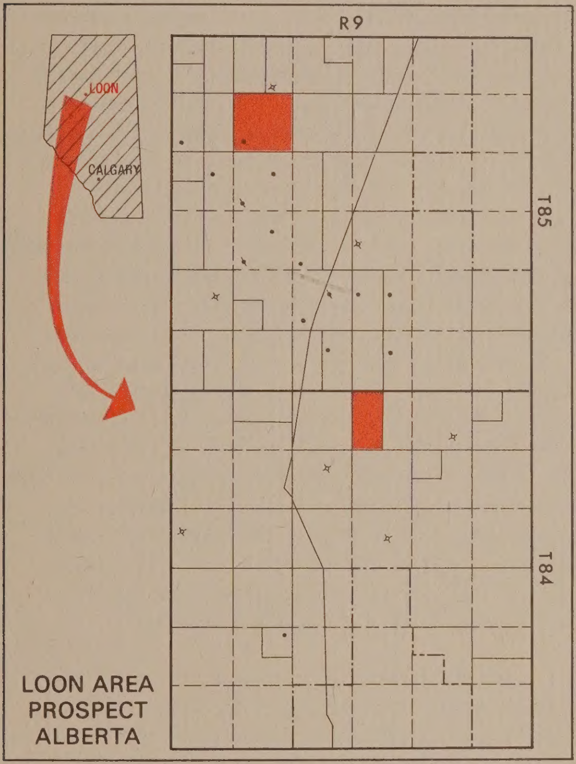
Comiesa Corporation also owns a gold-cyanide-arsenic residue stockpile at Snow Lake, Manitoba. This tailings deposit is calculated to contain about 270,000 tons of ore, having an average tenor of 0.324 ounces of gold per ton. Further research is being conducted to assess the profitability of this asset.

In Halifax County, Nova Scotia, Comiesa Corporation is involved in a $150,000 program combining diamond drilling with stripping and trenching to determine the gold content of 20 claims in which Comiesa has a 50 per cent interest. Preliminary results are encouraging.

CANADIAN ACTIVITIES

LOON LAKE

Towards the end of the company's past fiscal year, Agassiz Resources Ltd. took a 3.3 per cent participation in the drilling of a well on one of two leases in northern Alberta in which your Company has an interest. The well was drilled to a depth of 4,875 feet, and is currently producing oil at a daily rate of 75 barrels.



We expect similar results from a second well, now nearing completion. Drilling of a third location will be begun before the end of 1980.

Agassiz' interest in the Loon Lake property will generate a modest but long-term cash flow.

YOYO FIELD

In January, 1979, Agassiz Resources Ltd. acquired a 1.9487 per cent interest in two producing natural gas wells in northern British Columbia. Most of the purchase price was financed by a loan from a Canadian chartered bank.

At the time of acquisition, the spread between, your Company's cost of borrowing and the indicated rate of return from the sale of gas was sufficient to cover repayments on the loan and at the same time return a profit to the company.

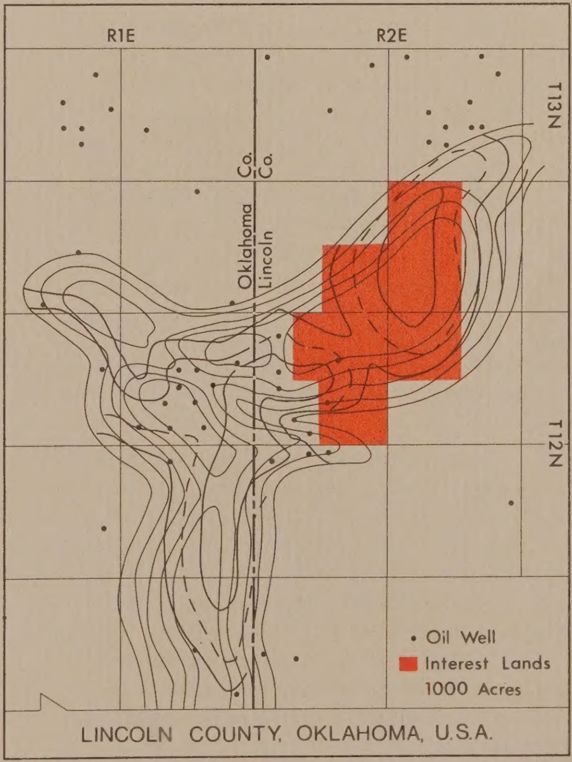
While British Columbia gas prices rose throughout the year, a rise in interest rates to record levels and reduced exports to the U.S. combined to eliminate profits from operations in the Yo-Yo field. We anticipate this situation will correct itself and we expect to be producing at a profit once again by winter.

UNITED STATES ACTIVITIES

LINCOLN COUNTY, OKLAHOMA

Agassiz Resources Ltd. has acquired a 25 per cent working interest in a 1,000-acre petroleum lease located on a multi-zone prospect containing at least six known hydrocarbon-bearing structures. The location of the lease is in Lincoln County, Oklahoma and is highly accessible being approximately 25 miles from Oklahoma City. Exploration on the boundaries of this lease some years ago discovered pay zones which produced as much as 300 barrels of oil and 1,500,000 cubic feet of gas daily.

The Agassiz consortium has defined a structural high from a seismic and micro-magnetic survey. Our engineering consultants have recommended drilling of a well in the southwest corner of this lease to test the



Misener sand, the source of production on the adjoining lease. Drilling will begin in late November.

The Lincoln County prospect, like our Taylor County property in Texas, offers good structural control and is surrounded by existing production. A test well based on the engineering recommendations will be spudded probably before the year end.

TAYLOR COUNTY, TEXAS

The first major venture of Agassiz Resources Ltd. in the Mid-Continental United States has resulted in the discovery of significant quantities of oil and the promise of substantial and continuing cash flow.

In late 1979, your Company acquired a one-quarter working interest, equivalent to an 18.25 per cent net revenue interest, in a block comprising 1,250 acres in Taylor County. Of four wells drilled so far on this property, three are commercial producers, and the results of the fourth will be known by the date of the annual meeting.

The Shep field in Taylor County is in an area which produced about 670,000 barrels of oil before being plugged and abandoned in 1961. Redevelopment of this field became feasible following the rise in oil prices which has continued since October, 1973.

The first well, the Tony Reagan No. 1, drilled 5,630 feet and encountered four potentially productive horizons, the Fry, Gray, Caddo and Ellenburger. An attempt was made to complete in the Ellenburger which had heavy oil staining and good porosity, but unfortunately it contained too much water. This water was sealed off, and the well was instead completed in the Caddo. Reagan No. 1, brought on stream in April, first produced 35 barrels of oil and 45,000 cubic feet of gas daily. Production has since stabilized at a daily rate of 11 barrels of oil and 25,000 cubic feet of gas daily.

The second well, the Eugene Crayton No. 1, located about 1,000 feet from the Reagan No. 1, was completed in the upper part of the Ellenburger in an attempt to avoid the water encountered in the first well. On testing it indicated a high oil potential but again experienced severe water problems. The initial calculations showed it to have delivery capabilities of 150 barrels per day, but our consulting engineers recommended a lower production rate in order to avoid water problems associated with Reagan No. 1. A 40 barrel per day level of output was maintained for about two weeks before the underlying water formation began to interfere. Consequently, completion was made in the Caddo, which is now yielding about 20 barrels daily. A similar rate of output is expected from the Gray horizon.

The third location, known as the J.R. Crayton No. 1, in addition to the Ellenburger, Caddo and Gray zones encountered yet another formation, tentatively designated the Lower Fry. This zone, approximately 20 feet thick, was heavily stained with oil, and had a porosity of up to 18 per cent. The Lower Fry formation, not found before in the immediate area, is a known prolific producer south of our leases. Both the Ellenburger and Lower Fry were tested and while each had recoverable quantities of oil the volume of formation water became insurmountable. Consequently these zones were sealed and testing of the Gray sands was carried out. Although this was the least interesting of the formations intersected at this location the results were surprisingly good. After treatment the open flow potential was calculated over 300 barrels of oil a day. Our consulting engineers do not anticipate that this level of output will be sustained for any great length of time but will likely decline by perhaps half of this number where it should stabilize. Production equipment has been ordered and will be installed shortly.

A fourth well, the Boyd Crayton No. 1, was recently completed to the top of the Ellenburger and encountered several potentially productive horizons. Testing of these various formations will begin immediately and results should be available before the annual meeting.

Management is pleased with the progress and results to date in the Shep Field. The success of the first four wells has in our opinion confirmed the existence of several oil bearing horizons which will yield significant quantities of hydrocarbons. We are convinced that each time a well is drilled in this field it will be productive from one or more formations, particularly the Caddo Lime or the Gray Sands.

As a demonstration of this faith your company and its partners have embarked on an active leasing program in the area and so far have been successful in adding a further 1,700 acres to our holdings bringing our total to about 3,100 acres. So long as we continue to experience success we intend to acquire

additional leases if these can be purchased on a reasonable basis.

IN CONCLUSION

Agassiz Resources Ltd. is closely allied with a group of companies which participate together — and share in — the risks and rewards of exploration and development. We believe this sharing-of-risk approach will continue to have synergistic consequences for your Company and its partners. While it is too early to predict the full impact of current development and activities on the coming year's profits we are confident that they will be positive. More importantly we feel that the ground work has been prepared for a major growth in gross revenues and net income in the years ahead.

It would not be fitting to conclude this report without acknowledging the dedication of our employees, the contribution of your Company's directors, and the continued support of the shareholders of Agassiz Resources Ltd.

On behalf of the directors
H.J. Mockler,
President

Agassiz Resources Ltd.

CONSOLIDATED BALANCE SHEET
As at June 30, 1980

ASSETS

	1980	1979
CURRENT		
Cash and short term deposits	$1,134,548	$ 82,220
Funds held in escrow (Note 3)	38,817	40,621
Marketable securities (Market — $64,000; 1979 — $300,000)	101,111	296,826
Accounts receivable	329,344	17,671
Accounts receivable — affiliated companies	61,334	48,066
Receivable from sale of oil and gas properties (Note 4)	25,000	53,683
Prepaid expenses	15,700	—
	1,705,854	539,087
INVESTMENTS AND ADVANCES (Note 5)	580,884	718,559
PROPERTY AND EQUIPMENT (Note 6)	1,541,138	1,731,959
GOODWILL, unamortized (Note 2)	112,733	115,624
	$3,940,609	$3,105,229

LIABILITIES

	1980	1979
CURRENT		
Accounts payable	$ 123,783	$ 136,737
Accounts payable — affiliated company	1,610	—
	125,393	136,737
BANK PRODUCTION LOAN (Note 7)	575,425	637,175
DEFERRED REVENUE (Note 8)	50,000	—
MINORITY INTEREST	88,921	98,870

SHAREHOLDERS' EQUITY

	1980	1979
CAPITAL STOCK (Note 9)		
Authorized:		
6,000,000 Common shares of no par value		
Issued:		
4,456,468 Common shares (1979 — 4,389,802)	3,290,045	3,216,879
DEFICIT	(189,175)	(984,432)
	3,100,870	2,232,447
	$3,940,609	$3,105,229

APPROVED ON BEHALF OF THE BOARD:

H.J. MOCKLER, DIRECTOR

S. BARTLETT, DIRECTOR

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Agassiz Resources Ltd.

CONSOLIDATED STATEMENT OF INCOME
For the year ended June 30, 1980

	1980	1979
REVENUE		
Oil and gas production	$ 78,889	$ 34,342
Gain on sale of oil and gas properties (Note 11)	751,606	20,000
Interest and investment income	116,557	101,427
	947,052	155,769
EXPENSES		
Oil and gas operations	7,352	3,365
General and administrative	199,720	216,750
Interest	46,035	17,133
Depletion, depreciation and amortization	46,991	15,100
Write-off of abandoned properties	64,380	—
	364,478	252,348
INCOME (LOSS) BEFORE OTHER ITEMS	582,574	(96,579)
Minority interest in subsidiary company's loss	7,824	—
Income (loss) before extraordinary item	590,398	(96,579)
Gain on sale of investments	204,859	—
NET INCOME (LOSS)	$ 795,257	$ (96,579)
Basic earnings per share		
Based on weighted average number of common shares outstanding:		
Income (loss) before extraordinary item	$ 0.13	$ (0.02)
Extraordinary item	0.05	—
NET INCOME (LOSS)	$ 0.18	$ (0.02)

AUDITORS' REPORT

To the Shareholders of
AGASSIZ RESOURCES LTD.

We have examined the consolidated balance sheet of AGASSIZ RESOURCES LTD. as at June 30, 1980 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at June 30, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
September 25, 1980

LEEBOSH, APRIL, CURTIS & ARBESS
CHARTERED ACCOUNTANTS
COMPTABLES AGREES

Agassiz Resources Ltd.

CONSOLIDATED STATEMENT OF DEFICIT
For the year ended June 30, 1980

	1980	1979
DEFICIT — BEGINNING OF YEAR		
As previously reported	$1,169,137	$ 887,853
Retroactive consolidation adjustment (Note 1a)	184,705	—
As restated	984,432	887,853
Net income (loss)	795,257	(96,579)
DEFICIT — END OF YEAR	$ 189,175	$ 984,432

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended June 30, 1980

	1980	1979
SOURCE OF WORKING CAPITAL		
Bank production loan	$ —	$ 650,000
Decrease in investments and advances	30,875	—
Proceeds on disposal of mining operations	—	11,430
Proceeds on sale of oil and gas property	1,225,000	—
Proceeds on stock options exercised	73,166	—
Proceeds on sale of investments	311,659	—
Deferred revenue	50,000	—
Working capital of subsidiary company acquired	—	45,095
	1,690,700	706,525
USE OF WORKING CAPITAL		
Operations		
Net (income) loss before other items	(582,574)	96,579
Items not affecting working capital:		
Depletion and depreciation	(46,991)	(15,100)
Gain on sale of oil and gas property	751,606	—
	122,041	81,479
Decrease in bank production loan	61,750	12,825
Additions to property and equipment	328,798	1,315,513
Increase in investments and advances	—	610,853
Excess of purchase price of subsidiary company over net book value of assets acquired	—	115,624
	512,589	2,136,294
Increase (decrease) in working capital	1,178,111	(1,429,769)
Working capital — beginning of year	402,350	1,832,119
WORKING CAPITAL — END OF YEAR	$1,580,461	$ 402,350

Agassiz Resources Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1980

1. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

In 1979, management undertook a formal plan to dispose of the controlling shares of its 60% owned subsidiary, Comiesa Corporation, and accordingly the accounts of the subsidiary were not consolidated at June 30, 1979. Subsequently, the company cancelled its plan on the basis of advice from its tax attorneys. As a result, the company has retroactively consolidated its accounts with those of its subsidiary as at June 30, 1979.

The consolidated financial statements include the accounts of the company and its 60% owned subsidiary, Comiesa Corporation. Inter-company balances and transactions have been eliminated on consolidation.

b) Property and Equipment

The company follows the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration for and development of such properties are capitalized. Such costs include land and lease acquisition costs, geological and geophysical expenses, carrying charges and costs of drilling. If a project is developed, the related accumulated costs are amortized against future income from the project. If a project is discontinued, the accumulated costs are written off to income in the year the project is discontinued.

c) Goodwill

Goodwill represents the excess of the purchase price of the shares of the subsidiary company over the net book value of assets acquired and is being amortized on a straight-line basis over forty years.

2. ACQUISITION

In June 1979, the company increased its holdings to 60% of the outstanding shares of its subsidiary, Comiesa Corporation. The assets and liabilities of Comiesa Corporation are included in the accompanying consolidated balance sheet as at June 30, 1979.

Details of the acquisition, which has been accounted for by the purchase method are as follows:

Book value of assets	$298,099
Book value of liabilities	49,229
	248,870
Deduct minority interest share in net assets	98,870
	150,000
Excess of purchase price of shares over value of net assets acquired	115,624
Total cost of investment	$265,624
Consideration given: 349,700 common shares	$265,624

3. **FUNDS HELD IN ESCROW**

These funds are held in escrow in order to hold the purchaser of a former subsidiary company of Comiesa Corporation harmless from any undisclosed obligations of the former subsidiary company that might arise. The funds were released in September 1980.

4. **RECEIVABLE FROM SALE OF OIL AND GAS PROPERTIES**

The receivable from sale of oil and gas properties became due in October 1978. The company has instituted legal proceedings, however a provision has been recorded to write down the receivable to an amount which, in management's opinion, will be recoverable.

5. **INVESTMENTS AND ADVANCES**

	1980	1979
Affiliated company		
Investment, at cost (market — $768,463; 1979 — $584,000)	$293,200	$400,000
Advances — bank production loan (Note 7)	287,684	318,559
	$580,884	$718,559

6. **PROPERTY AND EQUIPMENT**

a) Oil and Gas

Oil and gas interests represent the company's portion of participation in the exploration for and development of oil and gas properties.

	1980	1979
Canada	$1,023,374	$1,326,019
U.S.A.	274,356	134,725
	1,297,730	1,460,744
Accumulated depletion and depreciation	59,200	15,100
	1,238,530	1,445,644
b) Mining		
Mining properties and interests	302,608	286,315
	$1,541,138	$1,731,959

7. **BANK PRODUCTION LOAN**

The bank production loan was obtained by the company for the purpose of financing the acquisition of an interest in an oil and gas revenue producing property. One half of the company's interest was sold to an affiliated company which assumed responsibility for one half of the bank production loan (Note 5). In addition, the affiliated company is obligated to pay its proportionate share of all operating costs.

The bank production loan is evidenced by a demand promissory note issued by the company, bears interest at 1-1/4% above the bank's prime interest rate (June 30, 1980 — 14-1/2%), is repayable by blended payments and is secured by the company's and affiliated company's interest in and production proceeds from the oil and gas property. The loan is repayable out of future production proceeds and accordingly, is not expected to require the use of existing working capital; therefore, no portion of the loan has been reclassified to current liabilities. The estimated amount of bank loan blended repayments, including repayments due by the affiliated company, for the five years subsequent to June 30, 1980 are $156,000 per year.

8. DEFERRED REVENUE

This amount represents the total funds received to June 30, 1980 under the terms of the option agreement entered into by the company on September 1, 1979, with Sherritt Gordon Mines Ltd. and Montreal Trust whereby Sherritt Gordon was granted the option to examine and assess the development potential of the company's property located at Lynn Lake, Manitoba, with a view to completing a purchase thereof. The option agreement contains the following provisions:

i) That Sherritt Gordon pay to the company instalments of $10,000 each on September 15, 1979, October 15, 1979 and April 15, 1980, and commencing May 15, 1980, that it pay instalments of $10,000 on the 15th day of each and every month until Sherritt Gordon terminates the agreement.

ii) Sherritt Gordon has the right to exercise at any time the option to purchase the property by informing the company by letter of its intent to do so and by forwarding to the company, at the same time, a payment of $100,000. Sherritt Gordon must continue to remit to the company the monthly instalments of $10,000 until commercial production is initially attained.

iii) Upon the commencement of commercial production, the company will earn a monthly royalty of 7% of the value of all recovered gold and silver from Sherritt Gordon's mill feed from the property and of 3% of the net smelter returns for metals other than gold and silver. The company is entitled to receive these royalties only to the extent that the total of same exceeds the total of the monthly instalments received by it under paragraph (i).

iv) At any time after January 15, 1981, the company may demand by notice in writing to Sherritt Gordon that, within 60 days of receipt of such notice, it exercise the option or the agreement shall terminate.

v) If Sherritt Gordon exercises the option, it is to use its best efforts to bring the property into commercial production within 24 months of doing so. Failure by Sherritt Gordon to achieve commercial production within the 24 month period may lead to the termination of the agreement if the company can demonstrate that Sherritt Gordon did not diligently attempt to achieve commercial production of the property.

vi) Upon the termination of the option agreement by either party, the company is required to convey to Sherritt Gordon an undivided interest in the property based on the extent of Sherritt Gordon's expenditures on or pertaining to the property to bring same into commercial production, subject to adjustments dependent upon the circumstances of termination and the subsequent use of the property.

9. CAPITAL STOCK

During the year, 66,666 common shares were issued for a total consideration of $73,166 on the exercise of stock options (Note 10).

10. STOCK OPTION PLAN

The company has instituted an employees', directors' and officers' stock option plan on 240,000 treasury shares to be exercised on or prior to May 31, 1981 as follows:

		DIRECTORS AND OFFICERS	OPTION PRICE
a)	Granted	135,000	$1.06 to May 31, 1980 $1.31 to May 31, 1981
	Exercised	(56,666) (10,000)	$1.06 1.31
	Outstanding — End of year	68,334	$1.31
b)	Granted and outstanding at end of year	60,000	$1.42 to May 31, 1980 $1.67 to May 31, 1981

The balance of the option plan of 45,000 shares has been reserved for other employees.

11. GAIN ON SALE OF OIL AND GAS PROPERTIES

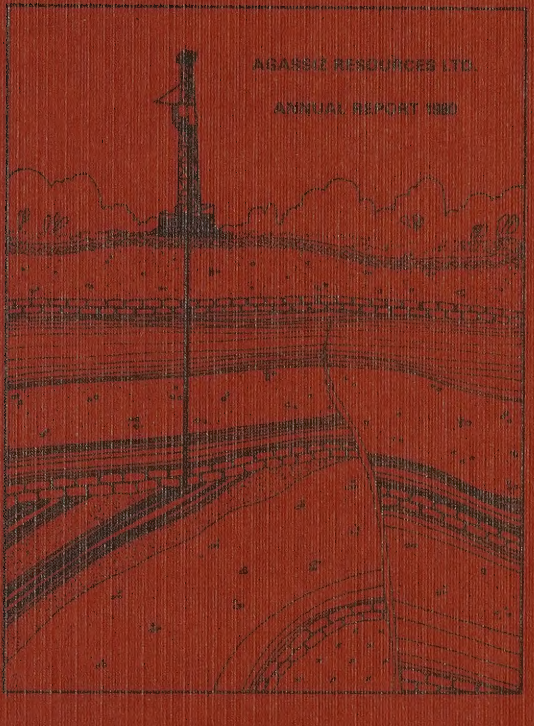
During the year, the company sold an oil and gas property for $1,225,000 resulting in a gain of $751,000. Under Canadian income tax laws, proceeds on disposal of oil and gas properties may be applied against cumulative Canadian development expense and accordingly, no income taxes have been provided.

12. RELATED PARTY TRANSACTIONS

Substantially all of the company's exploration and production activities are conducted jointly with affiliated companies and the accounts reflect only the company's proportionate interest in such activities.

13. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid to directors and senior officers during the year was $24,667 (1979 — $85,000). In addition, the company paid monthly management fees of $5,500 to a company owned by the President and members of his family. This agreement was terminated during the year.



ACKNOWLEDGMENT

The cover of this year's Annual Report is a reproduction of a "meteograph" (an etching using black anodized aluminum) drawn by Mr. Ron Mitchell of Oklahoma City, Oklahoma. Mr. Mitchell is a well known artist specializing in this type of etching depicting various scenes associated with the oil industry. We are grateful for his permission to allow the Company to use this particular scene as we believe it catches the exploration excitement connected with the petroleum business.